



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

Montana Department of Transportation

*For the Two Fiscal Years Ended
June 30, 2019*

DECEMBER 2019

LEGISLATIVE AUDIT
DIVISION

19-17

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting and many staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act Amendments of 1996 and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards require the auditor to issue certain financial, internal control, and compliance reports in addition to those reports required by *Government Auditing Standards*. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2017, was issued March 23, 2018. The Single Audit Report for the two fiscal years ended June 30, 2019, will be issued by March 31, 2020.

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December 2019

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Montana Department of Transportation for the two fiscal years ended June 30, 2019. This report contains five recommendations to the department related to internal controls over and compliance with federal regulations associated with the Highway Planning and Construction federal program, compliance with state laws, and internal controls over note disclosure preparation.

The department's written response and related corrective action plan begin on page C-1. The corrective action plan for Recommendation #1 outlines steps the department has taken to resolve the recommendation, which we first reported in the 15-17 audit. As noted in the report on pages 8 and 9, we do not believe these steps to be sufficient for those projects that are not being managed through the electronic payroll submission module. We thank the Director and his staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

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APPOINTED AND ADMINISTRATIVE OFFICIALS

			<u>Term Expires</u>
Montana Transportation Commission	Barb Skelton, Chair	Billings	2021
	Greg Jergeson	Chinook	2021
	Mike Hope	Bozeman	2021
	Noel Sansaver	Wolf Point	2023
	Tammi Fisher	Kalispell	2023
Montana Aeronautics Board	Tricia McKenna, Chair	Bozeman	2021
	Roger Lincoln	Gildford	2021
	Bill Hunt, Jr.	Shelby	2021
	Walt McNutt	Sidney	2021
	Jeff Wadekemper	Helena	2021
	Daniel Hargrove	Billings	2023
	Tom Schoenleben	Stevensville	2023
	John Maxness	Helena	2023
Montana Department of Transportation	Mike Tooley, Director		
	Pat Wise, Deputy Director		
	Larry Flynn, Administrator, Administration Division		
	Tim Conway, Administrator, Aeronautics Division		
	Dwane Kailey, Administrator, Engineering Division		
	Keni Grose, Administrator, Human Resources and Occupational Safety Division		
	Mike Bousliman, Administrator, Information Services Division		
	Jon Swartz, Administrator, Maintenance Division		
	Duane Williams, Administrator, Motor Carrier Services Division		
	Lynn Zanto, Administrator, Rail, Transit & Planning Division		

**Montana Department
of Transportation
(continued)**

Kevin Christensen, Chief Operating Officer

Dave Ohler, Chief Legal Counsel/Administrator, Professional Services
Division (through May 2019)

Valerie Wilson, Chief Legal Counsel/Administrator, Professional Services
Division (effective May 2019)

Vickie Murphy, Audit Services, Chief Auditor (through April 2019)

Natalie Gibson, Audit Services, Chief Auditor (effective September 2019)

Patti Schwinden, Office of Civil Rights, Operations Chief

District Administrators

Bob Vosen, Acting - Missoula

Bill Fogarty - Butte

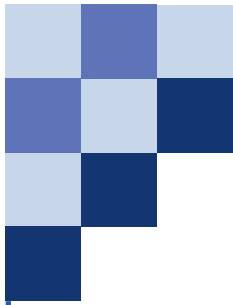
Doug Wilmot - Great Falls

Ron Nelson - Billings

Shane Mintz - Glendive

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FINANCIAL-COMPLIANCE AUDIT

Montana Department of Transportation For the Two Fiscal Years Ended June 30, 2019

DECEMBER 2019

19-17

REPORT SUMMARY

The Montana Department of Transportation (department) received approximately \$915.6 million in federal revenues associated with the Highway Planning and Construction program during the audit period, which funded approximately 57 percent of the department's operations for the same time period. Our audit found room for improvement in internal controls over compliance with federal regulations associated with this program. We also determined the department did not issue final contractor payments within the time limit established in state law, and has a material weakness in internal controls over preparing the note disclosures to the financial schedules.

Context

The department is one of the largest employing agencies in state government with over 2,100 employees. Among its many duties, the department: plans, designs, maintains, and constructs Montana's vast system of roadways, bridges, and rest areas; coordinates and oversees the state's highway traffic safety program; and manages the state motor pool.

The department's total expenditures for fiscal years 2018 and 2019 were approximately \$1.6 billion, of which approximately 94 percent were recorded in the state and federal special revenue funds. The department's primary funding sources are federal revenues for the Highway Planning and Construction program and fuel tax revenues. Fuel tax collections are deposited in various state special revenue fund accounts and are mainly used for department programs, statutory payments to local and tribal governments, and by the Department of Justice for Montana Highway Patrol costs. The working capital balance in the Highways State Special Revenue Fund account, which provides match for federal funding, was \$59.69 million at June 30, 2018, and \$80.41 million at June 30, 2019.

Our audit efforts focused primarily on the department's expenditures for personal

services and contractor payments, fuel tax and federal revenues and their associated accounts receivable balances, indirect cost recovery revenues and expenditures, and the department's capitalization of construction costs for highways projects. We also tested the department's compliance with federal regulations associated with the Highway Planning and Construction program, as well as compliance with selected state laws and regulations.

Results

We issued unmodified opinions on the regulatory basis of accounting under which the department's financial schedules are presented. This means a reader can rely on the information they present.

The prior audit report contained six recommendations to the department. The department fully implemented four of these recommendations and partially implemented two. The partially implemented recommendations are associated with the Highway Planning and Construction program, and relate to certified payrolls and change orders for highway construction projects.

(continued on back)

We found the department implemented internal controls intended to ensure certified payrolls were collected from contractors and subcontractors for new projects, but has a continued need to enhance internal controls over existing projects.

We also found the department worked with the Federal Highway Administration and other interested parties to update policies and procedures related to change orders. Because these updates were finalized late in our audit period, not enough time has passed to allow us to evaluate their effectiveness and the department's application of them.

Additionally, we determined the department has a continued need to enhance internal controls over Federal Funding Accountability and Transparency Act reporting for some of its federal awards. This relates to a prior audit recommendation, originally made in the 15-17 audit.

The current report contains recommendations related to these partially implemented prior audit recommendations. It also contains a recommendation related to the department's compliance with state laws governing the timeliness of final payments issued to contractors and paying interest on late payments. We found the department did not issue final payments in accordance with state law, and that the department's policy for issuing interest on late payments was contrary to state law.

The remaining recommendation relates to a material weakness in internal controls over preparing the note disclosures. We found the department did not have written procedures in place addressing the preparation and review of note disclosures. Due to staff turnover and the absence of procedures, the note disclosures originally provided as part of the audit did not contain the information necessary for a reader to understand the department's financial activity.

Recommendation Concurrence	
Concur	5
Partially Concur	0
Do Not Concur	0
Source: Agency audit response included in final report.	

Chapter I – Introduction and Background

Introduction

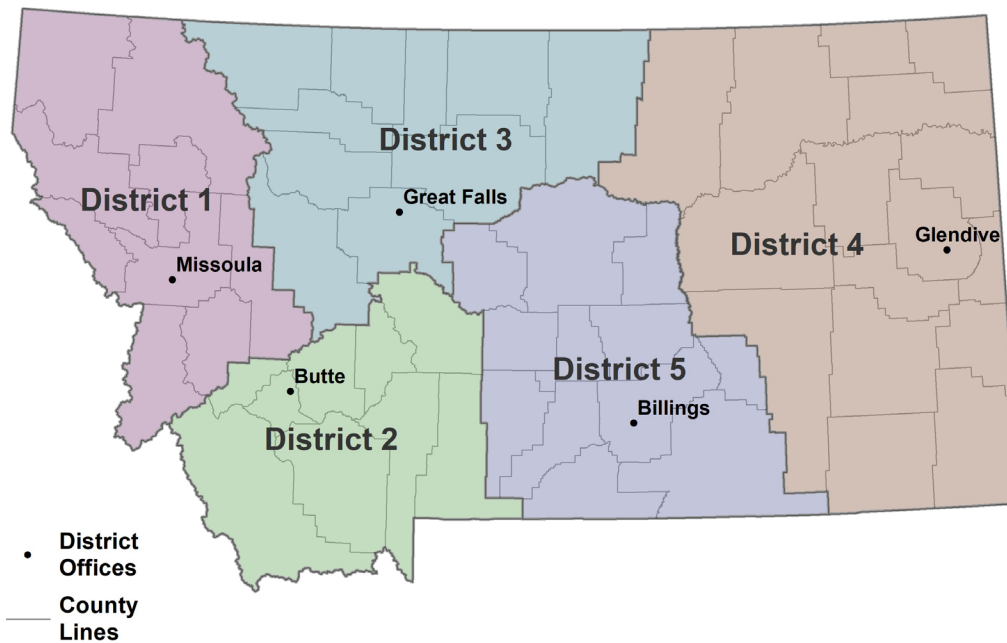
We performed a financial-compliance audit of the Montana Department of Transportation (department) for the two fiscal years ended June 30, 2019. The objectives of the audit were to:

1. Obtain an understanding of the department's control systems to the extent necessary to support our audit of the department's financial schedules and, if appropriate, make recommendations for improvements in management and internal controls of the department.
2. Determine whether the department's financial schedules present fairly the results of operations and changes in fund equity and property held in trust for each of the fiscal years ended June 30, 2019, and 2018.
3. Determine whether the department complied with selected state and federal laws and regulations during the audit period.
4. Determine the implementation status of prior audit recommendations.

Our audit efforts focused primarily on the department's expenditures for personal services and contractor payments, fuel tax and federal revenues and their associated accounts receivable balances, indirect cost recovery revenues and expenditures, and the department's capitalization of construction costs for highways projects. We also tested the department's compliance with federal regulations associated with the Highway Planning and Construction program, as well as compliance with selected state laws and regulations.

Figure 1 (see page 2) illustrates the boundaries for the department's five financial districts and cities with main district offices. As part of our work over the Highway Planning and Construction program, we performed various random samples of projects throughout the state. Table 1 (see page 2) provides a count of the projects we sampled from in each district, by project type, as part of this work. The reported "Active Projects" were selected as a random statistical sample of projects with construction during our audit period that were not finalized as of June 30, 2019. The "Closed Projects" were selected as a random statistical sample of construction projects finalized during our audit period. The "Utility Projects" were sampled from contracts for utility modification or relocation on projects.

Figure 1
Department Financial Districts and District Offices



SOURCE: Compiled by Legislative Audit Division from department data.

Table 1
Projects Sampled by District and Type

	Active Projects	Closed Projects	Utility Projects	Total
District 1 - Missoula	4	8	3	15
District 2 - Butte	6	5	1	12
District 3 - Great Falls	7	8	1	16
District 4 - Glendive	8	6	3	17
District 5 - Billings	5	3	1	9
Total	30	30	9	69

SOURCE: Compiled by Legislative Audit Division.

In accordance with §17-8-101(6), MCA, we reviewed the fees charged and the fund equity of the department's internal service funds. The department operates two internal service funds, both within the Maintenance Division. The Equipment Internal Service Fund provides a fleet of vehicles and equipment available for use by only the various programs of the department, and the Motor Pool Internal Service Fund provides a fleet of vehicles available for use by all state agencies. Based on our analysis, the fees charged and fund equity balances in both of the department's internal service funds were reasonable for the two fiscal years ended June 30, 2019.

Background

The department is responsible for administering the multimodal transportation network in Montana. The department plans, designs, builds, and maintains the statewide network of highways. The department is responsible for collecting and distributing fuel taxes, and receives gross vehicle weight fees. The department enforces state and federal laws for commercial motor carriers and registers interstate fleet vehicles. The department also facilitates the operation and the infrastructure of airports and airways in Montana, registers aircraft and pilots, and maintains several state-owned airports. The department represents Montana interests in railroad planning issues and supports local entities in overall transportation planning and transit assistance.

The department is under the direction of the director, who the governor appoints and the senate confirms. The director or his designee acts as liaison between the Transportation Commission (commission) and the department. The commission is comprised of five members appointed by the governor and confirmed by the senate for four-year terms. The commission determines construction priorities, selects construction projects, awards construction contracts, and allocates funding to state, local, and national highway system projects. It also classifies highways as federal aid, primary, and off-system in the state maintenance system.

The department's primary sources of funding are federal revenues and fuel tax revenues. Fuel tax collections are deposited to various state special revenue fund accounts, as established in state law. The revenues are mainly used for department programs, statutory payments to local and tribal governments, and by the Department of Justice for Montana Highway Patrol costs. Chapter 267, Laws of 2017, increased the fuel tax rate effective July 1, 2017. This chapter law also established the Bridge and Road Safety and Accountability Restricted (BaRSAA) State Special Revenue account, to be used for repair of highways and bridges in the state and to fund the local government road construction and maintenance match program.

Table 2 (see page 4) outlines the ending cash balance and the working capital balance in the Highways State Special Revenue account for the last seven fiscal years. Working capital is the amount of cash that would remain if all of the current assets were converted to cash, and all of the current liabilities were paid, at their book value. Working capital is calculated by deducting total current liabilities from total current assets. In addition to the increase in working capital balances observed during the audit period, state and federal funded construction contractor payments increased by approximately \$73.5 million, or 13 percent, from the 2017 biennium to the 2019 biennium. As of June 30, 2019, the department reported having contractual commitments of approximately \$294.4 million for the construction of various highways projects.

Table 2
Cash and Working Capital Balances in the Highways State Special Revenue Account
 (in Millions of Dollars)

Fiscal Year Ended June 30	Cash	Working Capital Balance
2013	\$31.17	\$70.42
2014	\$50.20	\$56.13
2015	\$26.42	\$43.03
2016	\$22.12	\$36.23
2017	\$35.41	\$46.93
2018	\$35.65	\$59.69
2019	\$55.18	\$80.41

Source: Compiled by the Legislative Audit Division from SABHRS.

Table 3 outlines financial activity in the BaRSAA account for fiscal years 2018 and 2019. Additional information regarding the projects funded by the BaRSAA account is available on the department's website at <https://www.mdt.mt.gov/roadbridge/>. While there were statutory appropriations created for the contractor payments, the department was able to accommodate the payments within its House Bill 2 appropriation authority.

Table 3
BaRSAA Financial Activity
 (in Millions of Dollars)

	Fiscal Year 2018	Fiscal Year 2019
Fuel Tax Revenues	\$26.78	\$27.64
Contractor Payments	\$2.96	\$10.38
Capitalized Costs	\$1.74	\$7.61
Local Government Distributions	\$3.55	\$9.54

Source: Compiled by the Legislative Audit Division from SABHRS.

Department Activities and Full-Time Equivalent Positions

The department was authorized 2,121.27 full-time equivalent (FTE) positions during fiscal year 2018. Department activities are organized under the Director's Office and the nine divisions described below. On the Schedules of Expenditures and Transfers-Out on pages A-7 and A-8, the General Operations Program presents the activity of the Director's Office and the Administration, Human Resources and Occupational Safety, Information Services, and Professional Services divisions. Additionally, the activity of the Maintenance Division is presented in the Equipment Program, Maintenance Program, and State Motor Pool Program columns on the schedules.

Director's Office (7.00 FTE) provides overall direction and management to the department. The department's Public Information function resides in this office.

Administration (53.00 FTE) provides administrative support services including accounting, budgeting, financial planning, and purchasing. The Administration Division administers motor fuel tax laws and collects motor fuel taxes.

Aeronautics (11.00 FTE) facilitates the maintenance of airports, registers aircraft and pilots, and coordinates and supervises aerial search and rescue operations. The Aeronautics Board decides whether to approve airport grant and loan requests, and advises the division on matters pertaining to aeronautics.

Highways and Engineering (849.72 FTE) is responsible for highway construction project planning and development from the time a project is included in the long-range work plan through the actual construction of the project. This includes project design, right-of-way acquisitions, issuing contract bid requests, awarding contracts, and administering construction contracts. Personnel in Helena and the department's five districts (Billings, Butte, Glendive, Great Falls, and Missoula) supervise and monitor work done by private contractors.

Human Resources and Occupational Safety (21.50 FTE) is responsible for maintaining department policies and assisting with and monitoring all areas of human resources, including recruitment and selection processes and creating a safe working environment for all employees.

Information Services (62.55 FTE) provides department-wide information technology services including network operations, application development, user support, records management, and printing.

Maintenance (862.55 FTE) is responsible for maintaining the state's highway systems and its related facilities, equipment and motor pool vehicles, and road condition information and reports.

Motor Carrier Services (123.44 FTE) enforces state and federal commercial motor carrier laws, including laws on vehicle size and weight, insurance, licensing, fuel, and vehicle and driver safety; registers interstate fleet vehicles; issues commercial vehicle licenses and oversize/overweight permits; collects and distributes fees and taxes; and operates a statewide weigh station and mobile enforcement program. It inspects commercial vehicles for compliance with state and federal safety, registration, fuel, insurance, and size/weight laws, and conducts commercial motor carrier safety compliance reviews and safety audits.

Professional Services (35.75 FTE) provides Legal Services, Audit Services, and Civil Rights oversight for the department. Audit Services consists of three distinct sections: Internal Audit, External Audit, and Motor Fuels Audit. The Internal Audit Group conducts audit work over departmental operations and programs, while the External Audit Group conducts audit work over the operations and activities of external parties as they relate to department operations. The Motor Fuels Audit Group conducts audits of motor fuel distributors.

Rail, Transit and Planning (94.76 FTE) provides a continuous statewide multimodal transportation planning process used to allocate highway program resources to ensure highway system performance goals are maintained. The division also provides technical and monetary assistance to local communities and transit authorities for planning, organizing, operating, and funding public transportation systems and highway traffic safety programs. The division also addresses environmental activities on highway projects.

Prior Audit Recommendations

The prior audit for the two fiscal years ended June 30, 2017, contained six recommendations to the department. We performed work to determine the implementation status of these recommendations, as well as one partially-implemented recommendation from the 15-17 audit. Of the six recommendations from the 17-17 audit, the department fully implemented four, and partially implemented two.

The partially-implemented recommendations are associated with the Highway Planning and Construction program and relate to certified payrolls and change orders for highway construction projects. We determined the department implemented internal controls intended to ensure certified payrolls were collected from contractors and subcontractors for new projects, but has a continued need to enhance internal controls over existing projects. See Recommendation #1 starting on page 7. We also found the department worked with the Federal Highway Administration and other interested parties to update policies and procedures related to contract adjustments. Because these updates were finalized late in our audit period, not enough time has passed to allow us to evaluate their effectiveness and the department's application of them. See Recommendation #2 starting on page 10 for further discussion.

We continue to consider the outstanding recommendation from the 15-17 audit, related to Federal Funding Accountability and Transparency Act reporting, to be partially implemented and have issued a new recommendation to the department in the current audit report. See Recommendation #3 on page 12.

Chapter II – Findings and Recommendations

Federal Highway Planning and Construction Program

The Montana Department of Transportation (department) administers the federally-funded Highway Planning and Construction program. The main objective of this program is to assist states in constructing, preserving, and improving highways and bridges on eligible federal-aid routes. Federal regulations outline requirements for the program, and require the department to establish and maintain effective internal controls to reasonably ensure the department complies with those requirements.

Federal regulations require our office to determine whether the department has implemented internal controls over compliance with, and has complied with, federal statutes and regulations applicable to the program. This work supports the state's Single Audit. If we identify instances where the department is not in compliance or where internal controls are insufficient, we are required to report them to the federal government. This includes reporting questioned costs over \$25,000 resulting from noncompliance. Additionally, we are required to perform procedures to determine whether prior findings have been resolved. On receipt of the Single Audit report, federal grantor agencies are responsible for reviewing reported recommendations and issuing management decisions. Additional documentation or information can also be requested from the department or our office as part of this process.

The 17-17 audit report included three recommendations associated with the Highway Planning and Construction program that were included in the Single Audit report issued in March 2018. As noted in the Prior Audit Report Section on page 6, we determined the department implemented one of these recommendations and partially implemented two. Additionally, the 15-17 audit report included one recommendation applicable to the program that has not yet been fully implemented. The following three report sections relate, in part, to these findings from prior audit periods. They also address continued noncompliance and internal control deficiencies occurring during the current audit period.

Certified Payrolls

Internal controls did not ensure all certified payrolls for highway construction projects were submitted in a timely manner, increasing the risk the department will not identify contractors not paying the prevailing wages required by federal regulations.

Federal regulations applicable to the Highway Planning and Construction program require contractors and subcontractors to pay prevailing wages on federally-funded

construction projects, and to submit payrolls to the department for each week in which contract work was performed, certifying prevailing wages were paid for the week. Federal regulations further require the department to obtain the payrolls prior to issuing payment to the contractor and to perform investigations to ensure contractors and subcontractors comply with prevailing wage requirements.

In the prior audit, we determined the department's internal controls did not ensure all payrolls were received prior to issuing payments to contractors. We also identified multiple projects for which the department did not receive all payrolls. In the current audit, we noted the department took steps to address this recommendation, including:

- ◆ Providing training to staff in the district offices.
- ◆ Having the department's internal audit staff review projects for timely and complete payroll submissions as part of their annual construction project reviews.
- ◆ Implementing a new electronic payroll submission module. Per department staff, the electronic submission module will work with the department's new project management information system, and is designed to flag instances of missing payrolls as exceptions when contractor pay estimates are generated in the system.

While providing training and reviewing projects for compliance should help reinforce the importance of the compliance requirement, these steps do not ensure identification of missing payroll submissions prior to issuing payment to contractors. Additionally, the department's electronic payroll submission module is intended to be used only on projects let from October 2019 forward, along with a small group of test projects let prior to October 2019. The module was only used on a limited basis during the current audit period, and the department does not intend to convert pre-existing projects to the new system. The department's implementation of the electronic submission module was tied to its implementation of a new project management system.

Based on our review of department records, there were approximately 250 projects with construction occurring in fiscal years 2018 or 2019. Only two used the electronic payroll submission module. We also estimate there are a minimum of 45 projects that will have active construction into the next audit period, that will not use the electronic submission module.

Due to the continued control deficiency, and the resulting noncompliance identified in the prior audit, we anticipated noncompliance to occur in the current audit period and designed the nature, timing, and extent of our testing accordingly. Our testing to confirm noncompliance included reviewing payroll submissions for one project from each of the department's five districts, and confirming known or likely noncompliance

identified by the department's internal audit function. Through this testing, we considered a total of 10 projects, and identified 4 with untimely or incomplete payroll submissions, as outlined below:

- ◆ On one project, a subcontractor submitted one payroll late. The payroll was for a week in September 2018, and was not submitted until January 2019.
- ◆ On one project, a subcontractor did not submit certified payrolls until the project was in winter shut-down. The subcontractor performed work from April 2018 through October 2018. Department staff indicated a majority of the payrolls were not submitted until sometime after October 2018.
- ◆ On one project, one subcontractor did not submit any payrolls. The subcontractor performed work intermittently from May 2018 to August 2018, but had not submitted any payrolls as of October 2019.
- ◆ On one project, two subcontractors did not submit payrolls for one week each. Department staff were unaware of the missing payrolls.

These untimely or incomplete submissions constitute noncompliance with federal regulations. Given the number of active projects during the audit period and the control deficiency, we believe there are likely other instances of noncompliance.

The department should implement additional internal controls specific to those projects excluded from the electronic submission module, to ensure all payrolls are received prior to payment on all projects going forward. Without such controls, there is risk the department will not identify instances where contractors or subcontractors are not paying their employees prevailing wages.

RECOMMENDATION #1

We recommend the Montana Department of Transportation:

- A. *Enhance internal controls to ensure all required certified payrolls are received for projects not being managed through the electronic payroll submission module.*
 - B. *Obtain and review certified weekly payrolls from contractors and subcontractors for all active construction projects of the Highway Planning and Construction program.*
-

Contract Adjustments for Quantity Overruns in Major Items of Work

The department can improve documentation of contract adjustments to support the reasonableness and necessity of costs incurred for construction projects.

To meet the objectives of the Highway Planning and Construction program, the department issues construction contracts on an on-going basis. Federal regulations require these contracts contain a provision requiring contract adjustments for any changes in quantities or alterations to the plans, specifications, and estimates that significantly change the character of the work under contract. This regulation indicates a significant change has occurred when either:

1. The character of work differs materially in kind or nature from what was originally proposed, or
2. When major items of work have quantity overruns or underruns in excess of 25 percent.

In our prior audit, we determined the department did not always formally document adjustments to contracts when major items of work had quantity overruns in excess of 25 percent (or 125 percent of the initial quantity estimates). We also noted the department's contract language associated with significant changes in the character of work was more restrictive than the language required by federal regulations. The contract language, as contained in the Standard Specifications for Road and Bridgework (spec book), also included quantity overruns and underruns in excess of 50 percent on nonmajor items of work within the definition of a significant change. We made a recommendation to the department to issue contract amendments for changes in contract quantities that were considered significant under the spec book and federal regulation, and to consider updating the definition of a significant change in the spec book to more closely align with federal regulation and actual business practices.

As part of their work to resolve the related Single Audit finding, Federal Highway Administration (FHWA) personnel asked to meet with us to further discuss the finding. FHWA also performed an on-site review of documentation related to quantity overruns. As a result of their follow-up procedures, FHWA and the department came to an agreement that quantity overruns in excess of 25 percent on major items of work would be in the form of change orders.

Accordingly, in April 2019, the department updated established guidance for change orders to reflect this agreement with FHWA. The department also worked with FHWA personnel and other interested parties to modify the spec book language regarding

significant changes to more closely align with federal regulations. This new language was applicable for projects let after April 2019. Because these updates were finalized late in our audit period, not enough time has passed to allow us to evaluate their effectiveness and the department's application of them. In the next biennial financial-compliance audit of the department, we will perform continued follow-up on this issue.

While the department began to take steps to address the recommendation, we also noted instances in the current audit period where the department did not issue change orders when major items of work had quantity overruns in excess of 25 percent. From department data, we performed an analysis on projects with change order overrides in the department's project management system. We selected three projects each having one major item of work with actual quantity overruns in excess of 25 percent. We estimate the amounts paid for actual quantities in excess of 125 percent of the contracted quantities to be approximately \$200, \$12,000, and \$28,000 for these three instances of quantity overruns. We estimate the federal share of these costs to be approximately \$36,000. This federal share, and associated indirect costs of approximately 10 percent, are questioned costs that must be reported in the state's Single Audit report. Based on the work performed, we question approximately \$40,000 in costs charged to the Highway Planning and Construction program. Given we did not review all projects, there is the potential for other questioned costs.

Federal regulations indicate costs must be necessary and reasonable for the performance of the federal award and be adequately documented in order to be allowable. The documentation department personnel included in the project files to support not issuing a change order for the overruns did not contain information to justify the reasonableness and necessity of quantity overruns and their associated costs. This documentation was similar in form and general content to what was on file in the prior audit, which FHWA personnel indicated they did not consider to be sufficient to document the adjustment to the contract required by federal regulations to support federal participation in the costs.

RECOMMENDATION #2

We recommend the Montana Department of Transportation continue to implement the directive of the Montana Division of the Federal Highway Administration to formally document adjustments to contracts through change orders when major items of work have quantity overruns in excess of 25 percent.

Federal Funding Accountability and Transparency Act Reporting

The department's internal controls did not ensure timely and complete Federal Funding Accountability and Transparency Act reporting, in accordance with federal regulations.

According to the United States General Services Administration, the Federal Funding Accountability and Transparency Act (FFATA) is intended to “empower every American with the ability to hold the government accountable for each spending decision...”, and “requires information on federal awards...be made available to the public via a single, searchable website...” Under this Act, the department is required to report each subaward action obligating \$25,000 or more in federal funds for each of its federal awards. A subaward is a formal written agreement through which the department agrees to pay another entity for performing certain activities under a federal award. Under federal regulations, the subaward information must be submitted to the federal government no later than the end of the month following the month in which the qualifying obligation was made. Federal regulations also require the department to establish and maintain internal controls to reasonably ensure the department complies with the reporting requirements.

The 15-17 audit report contained a recommendation to the department related to implementing internal control over FFATA reporting requirements to ensure compliance with federal regulations. In the 17-17 audit, we determined the department had taken steps to address the recommendation and reported timely for the Formula Grants for Rural Areas program, but did not report timely for the Highway Planning and Construction program. During the current audit period, the department reported the Highway Planning and Construction program subaward obligations timely in fiscal year 2018, but did not report timely in fiscal year 2019. In total, we noted 16 instances of untimely reporting, with reporting occurring five to eight months after the applicable deadlines. Untimely reporting creates a situation where the federal government has not been informed of information required by federal regulations.

Department staff attributed the noncompliance to turnover in the position assigned the reporting responsibility, and were aware of some of the instances of untimely reporting. To address the noncompliance, the department reassigned the reporting responsibility to a position with historically less turnover. However, department personnel were not aware of some of the untimely reporting identified by the audit team. Accordingly, the department has a continuing need to enhance internal controls to ensure timely reporting.

RECOMMENDATION #3

We recommend the Montana Department of Transportation:

- A. *Enhance internal controls to ensure compliance with the Federal Funding Accountability and Transparency Act for the Highway Planning and Construction program.*
 - B. *Report subaward obligating actions timely for the Highway Planning and Construction program.*
-

Untimely Final Contractor Payments

The department made approximately 28 percent and 46 percent of final contractor payments outside of the time limit established in state law during fiscal years 2018 and 2019, respectively.

State law requires the department to perform an inspection of the work completed by contractors for highway construction projects, and to either grant or refuse final acceptance of the work based on the inspection. Per §60-2-115(3), MCA, established by the 2013 Legislative Session, once the department notifies the contractor that the department has granted final acceptance, the department has 90 days to issue final payment to the contractor. The 15-17 audit report contained a recommendation to the department to issue final payments within this time frame. Through our follow-up to this recommendation in the 17-17 audit, we noted the department reduced the frequency of untimely payments by the end of fiscal year 2017, and we classified the recommendation as implemented. However, for the current audit period, department personnel estimate approximately 28 percent and 46 percent of final payments were made outside of this 90-day requirement during fiscal years 2018 and 2019, respectfully.

Department personnel were aware of the noncompliance with state law, and attribute it to a variety of factors including difficulties obtaining all certifications on projects, turnover in Bureau Chief positions, and a reorganization of the Highway and Engineering Division. Management has established a preliminary plan to modify the finalization process so that it includes the materials certification process. The plan is anticipated to be finalized in calendar year 2020 and is intended to help improve compliance with state law. Because this plan is in progress, and was not implemented during our audit period, we did not review its effectiveness.

By not issuing final payments timely under state law, the department is at risk of straining relationships with the contracting community. Department management

also indicated issuing final payment releases the contractor's bond, and that delays in this process can limit the contractor's ability to provide security on bids for other projects.

Additionally, when a state agency does not make timely payments, §17-8-242, MCA, requires the agency to pay simple interest at a rate of 0.05 percent per day on amounts due. We reviewed the department's policy for paying interest in accordance with this law, within the context of the untimely final contractor payments. The department's policy indicates interest will be paid only if requested by the contractor, which is contrary to state law. Department personnel indicated they believed the state law permitted interest to be paid if requested by a vendor or contractor, but did not realize it required the interest payments.

We did not perform an analysis of the projects with untimely payments to determine the dollar amount of interest that may be owed on them. However, based on our review of department documentation, several of the final payments issued outside of the 90-day limit in law experienced delays that department personnel attributed solely to the department. Under state law, interest should have been paid on these untimely payments. The department should review its policy on paying interest, and modify it to be consistent with state law. Additionally, the department should issue final contractor payments within 90 days of granting final acceptance.

RECOMMENDATION #4

We recommend the Montana Department of Transportation:

- A. *Comply with state law by issuing final contractor payments within 90 days of granting final acceptance.*
 - B. *Revise its internal policy to require interest on late payments to contractors and vendors.*
-

Financial Schedule Note Disclosures

The department's internal controls did not ensure the note disclosures completely and accurately disclosed the department's activity presented in the financial schedules.

The note disclosures, beginning on page A-9, are intended to provide a reader with additional information necessary to understand the department's activity as presented

in the financial schedules. The Department of Administration provides a template for the disclosures, and state policy requires department management to modify the template to reflect department activities. Policy also indicates additional disclosures may be necessary, and requires management to determine the content of those disclosures.

As part of the audit, we reviewed multiple versions of the note disclosures and communicated missing or inaccurate information in them to department personnel. For example, in the first version of the notes, certain disclosures were not updated from the template language and others, such as a discussion of material amounts of unspent budget authority, were not included. While subsequent versions included more of the information necessary to understand the department's activity, some of the information was incomplete or inaccurate. For example, the discussion of the unspent budget authority in the Highways & Engineering Program did not include discussion of new, unique sources of budget authority that were not spent during the audit period.

While the errors were ultimately corrected, they are an indication of a weakness in internal controls over the preparation and review of the note disclosures. The department's internal controls should ensure the note disclosures are complete and accurate prior to our audit of them. The department experienced turnover in the position responsible for preparing the note disclosures, and personnel were unable to find written procedures related to the preparation process. The department should implement internal controls over the preparation of the notes to include consideration of new or unusual activity and a review by knowledgeable personnel. We consider the deficiency in internal controls to be a material weakness, given the department's procedures did not prevent, or detect and correct, material omissions in the first set of note disclosures. This material weakness is reported in our Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Schedules Performed in Accordance with *Government Auditing Standards* on page B-1.

RECOMMENDATION #5

We recommend the Montana Department of Transportation enhance internal controls by developing written procedures for the preparation and review of the note disclosures.

Independent Auditor's Report and Department Financial Schedules

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Equity & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Transportation for each of the fiscal years ended June 30, 2019, and 2018, and the related notes to the financial schedules.

Management's Responsibility for the Financial Schedules

Management is responsible for the preparation and fair presentation of these financial schedules in accordance with the regulatory format prescribed by the Legislative Audit Committee, based on the transactions posted to the state's accounting system without adjustment; this responsibility includes recording transactions in accordance with state accounting policy; and designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of the financial schedules that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the department's preparation and fair presentation of the financial schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the department's internal control, and accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the overall presentation of the financial schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles

As described in Note 1, the financial schedules are prepared from the transactions posted to the state's primary accounting system without adjustment, in the regulatory format prescribed by the Legislative Audit Committee. This is a basis of accounting other than accounting principles generally accepted in the United States of America. The financial schedules are not intended to, and do not, report assets, deferred outflows of resources, liabilities, deferred inflows of resources, and cash flows.

The effects on the financial schedules of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinions on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles" paragraph, the financial schedules referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the department as of June 30, 2019, and June 30, 2018, or changes in financial position or cash flows for the years then ended.

Unmodified Opinions on Regulatory Basis of Accounting

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund equity and property held in trust of the Department of Transportation for each of the fiscal years ended June 30, 2019, and 2018, in conformity with the basis of accounting described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2019, on our consideration of the Department of Transportation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the department's internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

October 24, 2019

DEPARTMENT OF TRANSPORTATION
SCHEDULE OF CHANGES IN FUND EQUITY & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Enterprise Fund	Internal Service Fund	Agency Fund	Private Purpose Trust Fund
FUND EQUITY: July 1, 2018	116	\$ 114,341,186	\$ (3,103,024)	\$ 0	\$ 9,619,791	\$ 74,535,116	\$ 0	\$ 49,412
PROPERTY HELD IN TRUST: July 1, 2018							211,380	
ADDITIONS								
Budgeted Revenues & Transfers-In	529,817	342,647,722	521,054,962	15,413,850	623,421	36,732,530		1,172
Nonbudgeted Revenues & Transfers-In		1,543,347			16,177	223,471		(4)
Prior Year Revenues & Transfers-In Adjustments		18,776	(3,843,593)		7,882			
Direct Entries to Fund Equity	(529,922)	(26,918,823)			739	(15,549)		
Additions to Property Held in Trust								
Total Additions	(105)	317,291,022	517,211,370	15,413,850	648,219	36,940,451	1,362,712	1,169
REDUCTIONS								
Budgeted Expenditures & Transfers-Out		277,872,870	465,429,159	15,413,850	342,418	35,677,234		
Nonbudgeted Expenditures & Transfers-Out		11,623,045	49,890,859		235,830	942,027		
Prior Year Expenditures & Transfers-Out Adjustments		(17,207)			(964)	(12,310)		
Reductions in Property Held in Trust							1,305,792	
Total Reductions	0	289,478,707	515,320,018	15,413,850	577,285	36,606,950	1,305,792	0
FUND EQUITY: June 30, 2019	11	\$ 142,153,501	\$ (1,211,673)	\$ 0	\$ 9,690,725	\$ 74,868,617	\$ 0	\$ 50,580
PROPERTY HELD IN TRUST: June 30, 2019							268,300	

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

DEPARTMENT OF TRANSPORTATION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Enterprise Fund	Internal Service Fund	Private Purpose Trust Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS								
Licenses and Permits	\$ 519,666	\$ 23,330,551						\$ 23,850,217
Taxes	10,150	261,319,451						261,329,601
Charges for Services		6,171,168			\$ 50,058	\$ 35,034,243		41,255,469
Investment Earnings		442,024					\$ 1,169	443,193
Fines and Forfeits		466,974						466,974
Capital Contributions					131,934	1,685,637		1,817,571
Sale of Documents, Merchandise and Property		118,503				218,488		336,992
Rentals, Leases and Royalties	1	415,695			330,698			746,394
Grants, Contracts, and Donations		629,895			26,696			656,591
Transfers-in		238,553		\$ 15,413,850	25,055			15,677,458
Capital Asset Sale Proceeds		559,760						559,760
Federal Indirect Cost Recoveries		49,890,859						49,890,859
Miscellaneous		625,910			83,041	17,632		726,583
Federal		500	\$ 517,211,370					517,211,870
Total Revenues & Transfers-In	529,817	344,209,844	517,211,370	15,413,850	647,480	36,956,000	1,169	914,969,530
Less: Nonbudgeted Revenues & Transfers-In		1,543,347		15,413,850	16,177	223,471	1,172	17,198,017
Prior Year Revenues & Transfers-In Adjustments		18,776	(3,843,593)		7,882		(4)	(3,816,939)
Actual Budgeted Revenues & Transfers-In	529,817	342,647,722	521,054,962	0	623,421	36,732,530	0	901,588,452
Estimated Revenues & Transfers-In	503,101	388,051,382	469,126,163		1,401,975	39,466,788		898,549,409
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 26,716	\$ (45,403,660)	\$ 51,928,799	\$ 0	\$ (778,554)	\$ (2,734,258)	\$ 0	\$ 3,039,043
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS								
Licenses and Permits	\$ 27,566	\$ (210,700)						\$ (183,134)
Taxes	(850)	(41,799,967)						(41,800,817)
Charges for Services		1,173,608			\$ (68,411)	\$ (3,346,509)		(2,241,312)
Investment Earnings		(105,157)						(105,157)
Fines and Forfeits		(1,037,461)						(1,037,461)
Monetary Settlements		(5,000)						(5,000)
Capital Contributions					(868,066)	835,637		(32,429)
Sale of Documents, Merchandise and Property		(56,448)			(1,650)	(13,909)		(72,007)
Rentals, Leases and Royalties		(5,575)			156,593			151,019
Grants, Contracts, and Donations		(305,305)			(1,879)			(307,184)
Transfers-in		(5,510,654)			1,878	(15,000)		(5,523,776)
Federal Indirect Cost Recoveries		2,876,259						2,876,259
Miscellaneous		(415,262)			2,982	(194,478)		(606,758)
Federal		(2,000)	\$ 51,928,799					51,926,799
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 26,716	\$ (45,403,660)	\$ 51,928,799	\$ 0	\$ (778,554)	\$ (2,734,258)	\$ 0	\$ 3,039,043

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

DEPARTMENT OF TRANSPORTATION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Enterprise Fund	Internal Service Fund	Private Purpose Trust Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS								
Licenses and Permits	\$ 468,558	\$ 22,009,442						\$ 22,478,001
Taxes	8,610	258,943,726						258,952,336
Charges for Services		3,630,614			\$ 71,150	\$ 34,096,763		37,798,527
Investment Earnings		205,654					\$ 720	206,374
Fines and Forfeits		668,544				280		668,824
Capital Contributions					2,808,122			2,808,122
Sale of Documents, Merchandise and Property		103,685				298,214		401,900
Rentals, Leases and Royalties	1	438,105			306,909			745,015
Grants, Contracts, and Donations		561,105			44,596	126,910		732,611
Transfers-in		9,236,302		\$ 15,416,300	317,969			24,970,571
Capital Asset Sale Proceeds		1,557,075						1,557,075
Federal Indirect Cost Recoveries		43,952,827						43,952,827
Miscellaneous		263,867			90,829	18,949		373,644
Federal		1,940	\$ 441,952,638					441,954,578
Total Revenues & Transfers-In	477,169	341,572,886	441,952,638	15,416,300	3,639,574	34,541,116	720	837,600,404
Less: Nonbudgeted Revenues & Transfers-In		11,405,316		15,416,300	314,684	424,170	728	27,561,198
Prior Year Revenues & Transfers-In Adjustments		14,595				8,414	(8)	23,001
Actual Budgeted Revenues & Transfers-In	477,169	330,152,976	441,952,638	0	3,324,890	34,108,532	0	810,016,205
Estimated Revenues & Transfers-In	503,101	386,193,209	461,017,919		3,412,534	39,464,752		890,591,515
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (25,932)	\$ (56,040,233)	\$ (19,065,281)	\$ 0	\$ (87,644)	\$ (5,356,220)	\$ 0	\$ (80,575,310)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS								
Licenses and Permits	\$ (23,542)	\$ (1,375,237)						\$ (1,398,778)
Taxes	(2,390)	(42,326,626)						(42,329,016)
Charges for Services		(1,317,181)			\$ (48,600)	\$ (4,283,989)		(5,649,770)
Investment Earnings		(363,758)						(363,758)
Fines and Forfeits		(1,051,777)						(1,051,777)
Monetary Settlements		(5,000)						(5,000)
Capital Contributions		(178,000)			(191,878)	(850,000)		(1,219,878)
Sale of Documents, Merchandise and Property		(40,425)			(1,650)	(10,766)		(52,841)
Rentals, Leases and Royalties		15,175			139,909			155,084
Grants, Contracts, and Donations		(348,095)			2,869			(345,226)
Transfers-in		(5,513,006)			(1,122)	(15,000)		(5,529,128)
Federal Indirect Cost Recoveries		(3,061,773)						(3,061,773)
Miscellaneous		(474,471)			12,829	(196,465)		(658,107)
Federal		(60)	\$ (19,065,281)					(19,065,341)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (25,932)	\$ (56,040,233)	\$ (19,065,281)	\$ 0	\$ (87,644)	\$ (5,356,220)	\$ 0	\$ (80,575,310)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

DEPARTMENT OF TRANSPORTATION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Aeronautics Program	Equipment Program	General Operations Program	Highways & Engineering	Maintenance Program	Motor Carrier Services	Rail Transit & Planning	State Motor Pool	GAAP Adjustments	Total
Personal Services										
Salaries	\$ 650,094	\$ 6,140,566	\$ 12,129,439	\$ 52,136,188	\$ 37,859,629	\$ 6,180,825	\$ 6,139,463	\$ 286,851	\$ (37,012,280)	\$ 84,510,775
Other Compensation	800		6,250				400			7,450
Employee Benefits	212,039	2,268,863	3,536,644	18,792,746	16,997,741	2,551,614	2,153,667	113,371	(13,671,118)	32,955,568
Personal Services-Other	(973)	69,064						2,461		70,552
Total	861,961	8,478,493	15,672,333	70,928,934	54,857,370	8,732,439	8,293,530	402,683	(50,683,398)	117,544,345
Operating Expenses										
Other Services	478,038	512,634	8,143,946	398,577,745	25,014,132	354,110	2,012,943	399,459	(318,698,879)	116,794,127
Supplies & Materials	29,251	7,530,800	1,621,745	1,006,252	1,626,227	372,132	111,359	1,406,938	(616,246)	13,088,458
Communications	8,403	7,688	2,335,456	463,786	331,886	68,325	901,690	1,067	(233,353)	3,884,948
Travel	21,569	34,206	239,844	1,161,300	271,457	228,885	163,894		(847,600)	1,273,554
Rent	18,367	34,614	60,499	4,071,430	25,695,737	492,802	173,202	64,800	(2,590,196)	28,021,255
Utilities	51,181	84,516		73,850	3,883,110	95,879	5,719		(116,386)	4,086,431
Repair & Maintenance	48,080	6,967,305	970,697	2,837,082	20,114,719	370,077	161,369	454,740	(1,703,653)	30,220,415
Other Expenses	318,653	6,869,171	3,301,014	44,970,106	1,231,740	581,187	2,618,347	2,020,325	(37,338,688)	24,571,856
Goods Purchased For Resale	14,053									14,053
Total	987,596	22,040,933	16,673,200	453,161,551	78,169,006	2,563,399	6,148,522	4,355,892	(362,145,001)	221,955,098
Equipment & Intangible Assets										
Equipment		32,286	42,178	1,880,712	73,084	408,585	20,048			2,456,893
Intangible Assets						31,213	1,485,425			1,516,639
Total		32,286	42,178	1,880,712	73,084	439,798	1,505,473			3,973,531
Capital Outlay										
Land & Interest In Land			5	6,359,651					412,828,399	419,188,055
Buildings	233,183				503,299					736,482
Other Improvements	28,651									28,651
Total	261,834		5	6,359,651	503,299				412,828,399	419,953,188
Local Assistance										
From other sources			5,971,339							5,971,339
Total			5,971,339							5,971,339
Grants										
From State Sources	511,674		26,276,781	374,367			2,791,456			29,954,277
From Federal Sources				1,529,558			13,977,435			15,506,992
From Other Sources							370,217			370,217
Total	511,674		26,276,781	1,903,924			17,139,107			45,831,486
Transfers-out										
Fund transfers	25,055		8,309,264	60,000		87,113	1,532,123			10,013,555
Mandatory Transfers				15,413,850						15,413,850
Total	25,055		8,309,264	15,473,850		87,113	1,532,123			25,427,405
Debt Service										
Bonds				15,413,850						15,413,850
Loans								189,664		189,664
Total				15,413,850				189,664		15,603,514
Post Employment Benefits										
Other Post Employment Benefits	607	33,801						1,696		36,104
Employer Pension Expense	29,298	1,025,672						45,829		1,100,799
Total	29,904	1,059,472						47,526		1,136,902
Total Expenditures & Transfers-Out	\$ 2,678,023	\$ 31,611,185	\$ 72,945,099	\$ 565,122,473	\$ 133,602,760	\$ 11,822,749	\$ 34,618,756	\$ 4,995,765	\$ 0	\$ 857,396,810
EXPENDITURES & TRANSFERS-OUT BY FUND										
State Special Revenue Fund	\$ 1,490,331		\$ 71,829,687	\$ 75,707,042	\$ 124,465,795	\$ 8,907,245	\$ 7,078,607			\$ 289,478,707
Federal Special Revenue Fund	610,408		1,115,412	474,001,581	9,136,964	2,915,504	27,540,149			515,320,018
Debt Service Fund				15,413,850						15,413,850
Enterprise Fund	577,285									577,285
Internal Service Fund		\$ 31,611,185						\$ 4,995,765		36,606,950
Total Expenditures & Transfers-Out	2,678,023	31,611,185	72,945,099	565,122,473	133,602,760	11,822,749	34,618,756	4,995,765	0	857,396,810
Less: Nonbudgeted Expenditures & Transfers-Out	14,659	201,919	10,118,577	63,153,925	972,805	434,661	2,468,957	740,108		78,105,610
Prior Year Expenditures & Transfers-Out Adjustments	(964)	(4,144)		(12,148)	(4,822)	(237)		(8,167)		(30,482)
Actual Budgeted Expenditures & Transfers-Out	2,664,328	31,413,410	62,826,523	501,980,696	132,634,776	11,388,324	32,149,800	4,263,824	0	779,321,681
Budget Authority	4,240,952	32,849,060	78,165,556	703,933,502	145,878,433	14,461,375	45,480,570	6,465,231		1,031,474,679
Unspent Budget Authority	\$ 1,576,624	\$ 1,435,650	\$ 15,339,033	\$ 201,952,805	\$ 13,243,657	\$ 3,073,051	\$ 13,330,770	\$ 2,201,407	\$ 0	\$ 252,152,998
UNSPENT BUDGET AUTHORITY BY FUND										
General Fund				180,000						180,000
State Special Revenue Fund	\$ 496,768		\$ 14,008,736	48,504,593	\$ 13,154,851	\$ 1,573,071	\$ 2,059,512			79,797,531
Federal Special Revenue Fund	1,036,100		1,330,297	153,268,212	88,805	1,499,980	11,271,258			168,494,653
Enterprise Fund	43,757									43,757
Internal Service Fund		\$ 1,435,650						\$ 2,201,407		3,637,057
Unspent Budget Authority	\$ 1,576,624	\$ 1,435,650	\$ 15,339,033	\$ 201,952,805	\$ 13,243,657	\$ 3,073,051	\$ 13,330,770	\$ 2,201,407	\$ 0	\$ 252,152,998

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

DEPARTMENT OF TRANSPORTATION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Aeronautics Program	Equipment Program	General Operations Program	Highways & Engineering	Maintenance Program	Motor Carrier Services	Rail Transit & Planning	State Motor Pool	GAAP Adjustments	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT										
Personal Services										
Salaries	\$ 712,071	\$ 6,086,990	\$ 11,802,275	\$ 52,252,498	\$ 38,276,923	\$ 5,830,345	\$ 6,140,654	\$ 275,198	\$ (36,658,353)	\$ 84,718,600
Other Compensation	855		7,000				250			8,105
Employee Benefits	196,035	2,095,786	3,542,666	17,295,130	15,682,593	2,193,629	1,989,039	100,842	(12,561,717)	30,534,002
Personal Services-Other	(35)	(19,934)						(1,848)		(21,817)
Total	908,926	8,162,842	15,351,940	69,547,628	53,959,515	8,023,974	8,129,943	374,193	(49,220,070)	115,238,891
Operating Expenses										
Other Services	(2,903,143)	543,981	8,163,214	318,300,839	23,311,353	389,223	2,545,653	384,140	(249,104,776)	101,630,484
Supplies & Materials	37,066	7,686,718	2,318,467	1,133,801	1,509,181	411,442	229,363	1,307,302	(712,316)	13,921,025
Communications	14,204	7,529	2,428,995	382,895	340,621	70,372	758,829	1,401	(210,789)	3,794,060
Travel	18,701	36,086	195,645	1,063,181	271,312	236,877	150,503	81	(756,476)	1,215,910
Rent	29,709	33,665	67,176	3,855,972	25,357,787	430,168	192,944	64,800	(2,476,971)	27,555,250
Utilities	54,649	91,119		79,556	3,966,858	77,500	5,313	9,788	(67,833)	4,216,951
Repair & Maintenance	71,897	6,300,251	1,082,355	2,933,212	19,401,143	400,512	77,877	467,791	(1,869,450)	28,865,588
Other Expenses	306,512	7,810,097	3,229,602	39,841,062	1,375,531	510,355	2,578,541	1,907,559	(31,584,661)	25,974,598
Goods Purchased For Resale	14,198									14,198
Total	(2,356,205)	22,509,446	17,485,454	367,590,518	75,533,787	2,526,449	6,539,024	4,142,863	(286,783,273)	207,188,063
Equipment & Intangible Assets										
Equipment		(218,383)	50,789	1,357,382	128,276	116,956	50,800			1,485,820
Intangible Assets					951,907		30,000			981,907
Total		(218,383)	50,789	1,357,382	1,080,183	116,956	80,800			2,467,727
Capital Outlay										
Land & Interest In Land			9	6,494,394					336,003,343	342,497,746
Buildings	2,808,122				840,917					3,649,039
Total	2,808,122		9	6,494,394	840,917				336,003,343	346,146,784
Local Assistance										
From other sources			5,317,086							5,317,086
Total			5,317,086							5,317,086
Grants										
From State Sources	312,514		20,292,550	260,137			4,673,075			25,538,276
From Federal Sources				835,633			13,160,377			13,996,010
From Other Sources							364,561			364,561
Total	312,514		20,292,550	1,095,770			18,198,013			39,898,847
Transfers-out										
Fund transfers	317,969		9,329,040	15,416,300	16,810	33,773	1,596,937			11,294,528
Mandatory Transfers										15,416,300
Total	317,969		9,329,040	15,416,300	16,810	33,773	1,596,937			26,710,828
Debt Service										
Bonds				15,416,300						15,416,300
Loans								208,516		208,516
Capital Leases			63,952							63,952
Total			63,952	15,416,300				208,516		15,688,769
Post Employment Benefits										
Other Post Employment Benefits	623	33,834						1,701		36,159
Employer Pension Expense	21,984	1,030,991						45,158		1,098,133
Total	22,607	1,064,825						46,859		1,134,292
Total Expenditures & Transfers-Out	\$ 2,013,933	\$ 31,518,730	\$ 67,890,820	\$ 476,918,292	\$ 131,431,212	\$ 10,701,151	\$ 34,544,716	\$ 4,772,431	\$ 0	\$ 759,791,286
EXPENDITURES & TRANSFERS-OUT BY FUND										
State Special Revenue Fund	\$ 1,599,778		\$ 66,597,685	\$ 60,709,253	\$ 122,309,685	\$ 8,052,838	\$ 9,115,432			\$ 268,384,671
Federal Special Revenue Fund	(25,508)		1,293,135	400,792,739	9,121,527	2,648,313	25,429,285			439,259,490
Debt Service Fund				15,416,300						15,416,300
Enterprise Fund	439,663									439,663
Internal Service Fund		\$ 31,518,730						\$ 4,772,431		36,291,161
Total Expenditures & Transfers-Out	2,013,933	31,518,730	67,890,820	476,918,292	131,431,212	10,701,151	34,544,716	4,772,431	0	759,791,286
Less: Nonbudgeted Expenditures & Transfers-Out	(1,544)	1,180,911	11,539,943	56,744,288	1,192,949	333,981	2,377,876	1,883,398		75,251,803
Prior Year Expenditures & Transfers-Out Adjustments	154	36,958	28,674	690,525	(146,888)	(48,477)	(353,548)	(8,454)		198,944
Actual Budgeted Expenditures & Transfers-Out	2,015,324	30,300,861	56,322,203	419,483,478	130,385,151	10,415,647	32,520,388	2,897,487	0	684,340,538
Budget Authority	4,102,789	30,720,079	126,513,873	519,554,921	138,965,857	12,840,717	43,966,189	6,368,740		883,033,163
Unspent Budget Authority	\$ 2,087,465	\$ 419,218	\$ 70,191,670	\$ 100,071,442	\$ 8,580,706	\$ 2,425,070	\$ 11,445,800	\$ 3,471,253	\$ 0	\$ 198,692,625
UNSPENT BUDGET AUTHORITY BY FUND										
State Special Revenue Fund	\$ 495,499		\$ 28,930,124	\$ 35,427,929	\$ 8,535,714	\$ 1,181,604	\$ 1,458,354			\$ 76,029,224
Federal Special Revenue Fund	1,461,916		41,261,546	64,643,513	44,992	1,243,466	9,987,447			118,642,880
Enterprise Fund	130,050									130,050
Internal Service Fund		\$ 419,218						\$ 3,471,253		3,890,471
Unspent Budget Authority	\$ 2,087,465	\$ 419,218	\$ 70,191,670	\$ 100,071,442	\$ 8,580,706	\$ 2,425,070	\$ 11,445,800	\$ 3,471,253	\$ 0	\$ 198,692,625

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

Montana Department of Transportation

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 2019

1. Summary of Significant Accounting Policies

Basis of Accounting

The department uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, Federal Special Revenue and Debt Service). In applying the modified accrual basis, the department records:

- ♦ Revenues when it receives cash or when receipts are realizable, measurable, earned, and available to pay current period liabilities.
- ♦ Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the department to record the cost of employees' annual and sick leave when used or paid.

The department uses accrual basis accounting for its Proprietary (Enterprise and Internal Service) and Fiduciary (Private-Purpose Trust and Agency) fund categories. Under the accrual basis, as defined by state accounting policy, the department records revenues in the accounting period when realizable, measurable, and earned, and records expenses in the period incurred when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the department receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format was adopted by the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

The department uses the following funds:

Governmental Fund Category

- ♦ **General Fund** – to account for all financial resources except those required to be accounted for in another fund.

- ♦ **State Special Revenue Fund** – to account for proceeds of specific revenue sources (other than private-purpose trusts or major capital projects) that are legally restricted to expenditures for specific state program purposes. Department State Special Revenue Funds include the restricted highway revenue, nonrestricted highway revenue, petroleum storage tank, uniform carrier registration, fuel tax distributed to other state agencies and tribal governments, county collections for the DUI Prevention Program, the senior citizens and persons with disabilities transportation services, rail construction and various Aeronautics Division accounts.
- ♦ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Department Federal Special Revenue Funds include federal highway planning and construction, highway traffic safety, transit administration, motor carrier services grants, rail planning and construction, and aviation administration funds received by the department.
- ♦ **Debt Service Fund** – to account for accumulated resources for the payment of general long-term debt principal and interest. The department uses this fund for debt service for the Grant Anticipation Notes that were issued to finance the engineering and construction on a portion of Highway System 93.

Proprietary Fund Category

- ♦ **Internal Service Fund** – to account for the financing of goods or services provided by one department or agency to other departments or agencies of state government or to other governmental entities on a cost-reimbursement basis. Department Internal Service Funds includes the State Motor Pool and Highway Equipment Program.
- ♦ **Enterprise Fund** – to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the department finance or recover costs primarily through user charges; (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate; (c) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; or (d) when laws or regulations require that the activities' cost of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues. Department Enterprise Funds includes the financial activity of the West Yellowstone Airport.

Fiduciary Fund Category

- ♦ **Private-Purpose Trust Fund** – to account for activity of any trust arrangement not properly reported in a pension fund or an investment trust fund where the principal and income benefit individuals, private organizations, or other governments. Department private-purpose trust funds includes the Woodville Hill Abandonment activity.
- ♦ **Agency Fund** – to account for resources held by the state in a custodial capacity. Agency funds may be used on a limited basis for internal (to the State) clearing account activity but these must have a zero balance at fiscal year-end. The department agency funds includes union pension activity, the

tribal Improvements or Services (IOS) fees, and conferences administered on behalf of other entities.

2. General Fund Equity Balance

The department had no general fund expenditures or transfers-out during the two-year period ending June 30, 2019. The department did record revenues into the general fund in accordance with various statutes. During the fiscal year-end period of June 30, 2019, the department recorded a receivable for an aircraft registration in the amount of \$11. Because of the activity related to footnote 3 – Direct Entries to Fund Equity for shared funds, this timing difference resulted in a fund equity balance of \$11 as of June 30, 2019.

3. Direct Entries to Fund Equity

Direct entries to fund equity in the General and Special Revenue funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies.

Direct entries to fund equity in the State Special Revenue Fund also include entries for increases and decreases in the Maintenance Program's inventory values and reclassification of fund equity for prepaid expenses in accordance with state accounting policy.

4. Nonbudgeted Expenditures & Transfers-Out

- ♦ **State Special Revenue Fund** – The nonbudget expenditures and transfers-out includes: \$1.3 million and \$0 million for fiscal years 2018 and 2019, respectively, transfer from the Highway State Special Revenue-Restricted Fund to tribal motor fuels tax and tribal motor fuels administration funds (due to a process change in FY 2018, tribal motor fuel revenues are entered directly into the fund, resulting in \$0 of transfers); \$2.5 million and \$2.6 million expenditure for fiscal year 2018 & 2019, respectively, representing 1% of the total motor fuel taxes collected and paid to petroleum distributors for collecting the fuel tax; and \$.6 million and \$1.4 million for fiscal years ending 2018 and 2019, respectively, for indirect costs charged to state special revenue funds in accordance with MDT's indirect cost agreement negotiated with the Federal Highway Administration (FHWA).
- ♦ **Federal Special Revenue Fund** – The nonbudget expenditures and transfers-out includes: \$40.8 million and \$46.3 million in fiscal years ended 2018 and 2019, respectively, for indirect costs charged to federal special revenue funds in accordance with MDT's indirect cost agreement negotiated with the Federal Highway Administration (FHWA).
- ♦ **Debt Service Fund** – The nonbudgeted expenditures and transfers-out of \$15.4 million and \$15.4 million in fiscal years ended 2018 and 2019,

respectively, is debt service of the Grant Anticipation Revenue Vehicle (GARVEE) bonds that were used to finance the engineering and construction on a portion of Highway System 93. The related budgeted expenditures are recorded in the federal special revenue fund as mandatory transfers-out and recorded as non-budgeted transfers-in in the debt service fund. The related budgeted revenue is recorded in the federal special revenue fund.

5. Intra-Agency Activity

During the normal course of operations, the department has transactions within funds and between funds to provide services and service debt. The following describes the activity for the two fiscal years ended June 30, 2019.

Equipment Program

The Equipment Program, which is part of the Internal Service Fund, maintains a fleet of equipment and vehicles for use within the department. Costs are recovered through user fees charged to other programs within the department. Charges for Services revenues are recorded in the Internal Service Fund for the rent of the equipment and the user program records rent expense. Maintenance, Highways & Engineering, and Motor Carrier Services are the major programs that use the equipment and vehicles. The Charges for Services revenue for the Equipment Program was approximately \$29.7 million in fiscal year 2018 and \$30.3 million in fiscal year 2019.

Transfers

Approximately \$15.4 million was transferred in each fiscal year from the Highways & Engineering Program in the Federal Special Revenue Fund to the Debt Service Fund for the debt service payments for the Grant Anticipation Revenue Vehicle (GARVEE) bonds.

6. Highway Construction Commitments

At June 30, 2018 and June 30, 2019, the department had contractual commitments of approximately \$280.1 million and \$294.4 million, respectively, for the construction of various highway projects. Funding for these highway projects is to be provided from federal Highway Planning and Construction grants and matched with State Special Revenue Funds.

7. GAAP Adjustments Program

The department initially records expenditures related to infrastructure in the Highways & Engineering, Maintenance, and Rail, Transit & Planning Programs. The expenditures are originally budgeted by the Montana Legislature as personal services, operating expenses, equipment, and grants. In fiscal year 2011, the department

established a GAAP Adjustments Program to reclassify the capital outlay nonbudgeted expenditures in accordance with state policy. The nonbudgeted expenditures in this program are used strictly for GAAP adjustment purposes and should not be used in department expenditure analysis.

8. County Collection Revenue

Daily, counties enter revenue they have collected on the state's behalf into the Department of Justice's (DOJ) computerized system, the Montana Enhanced Registration & Licensing Information Network (MERLIN). The DOJ then records the revenue due to the department under its business unit, rather than the department's. Although the revenue is properly recorded on the state's accounting records, the revenues aren't reflected on the Schedule of Revenues and Transfers-In. The flow of cash associated with this activity is presented within the direct entries to fund equity in the State Special Revenue fund on the Schedule of Changes. During fiscal years 2018 and 2019, approximately \$14.0 million and \$14.2 million, respectively, of gross vehicle weight revenue under Licenses & Permits are not reflected in the State Special Revenue Fund on the department's financial schedules.

9. Unspent Budgeted Expenditure Authority

The following narrative provides information regarding unspent budgeted expenditure authority in fiscal years 2018 and 2019 for the Highways & Engineering, Rail, Transit & Planning, and Maintenance Programs.

General Operations Program

The \$70.1 million unspent budget authority in the General Operations Program in fiscal year 2018 primarily relates to the 30% fiscal year 2017 unexpended appropriations carryforward authorized in Montana Code Annotated (MCA) 17-7-304(4) which states: "30% of the money appropriated to an agency for that year by the general appropriations act for personal services, operating expenses, and equipment, by fund type, and remaining unexpended and unencumbered at the end of the year may be reappropriated to be spent during the following 2 years for any purpose that is consistent with the goals and objectives of the agency." Since the department is primarily budgeted with biennial appropriations that expire in odd years, the unspent budget authority is highest in even years.

Highways & Engineering and Rail, Transit & Planning Programs

Budgeted expenditure authority of State Special and Federal Special Revenue funds for the Construction Program is based on departmental estimates of multi-year authorizations of federal-aid funding and the corresponding highway construction

plan. This plan is finalized between six months and one year prior to the start of the new biennium.

Highway construction in Montana is a seasonal industry where weather plays a large factor in construction progress. One month of bad weather can affect contractor payments by as much as \$50 million. The department must have ample budget authority available to meet the best of conditions. The Legislature has consistently recognized this issue by granting the department with continuing appropriation authority for these programs.

Also included in the Federal Special Revenue funds are unspent authority related to grab bag funds which are funds allocated from states that have not obligated their entire Federal Program and redistributed to states that have. MDT has received grab bag funds in fiscal years 2018 and 2019 which has required additional budget authority. Much of this budget authority remains unspent due to the nature of the projects obligated. Many projects are multi year construction projects in which the expenditures do not come in evenly due to the nature of the work and weather. Also, once contractors are able to work, the expenditures can ramp up quickly.

Maintenance Program

The Maintenance Program is responsible for the repair, maintenance, and preservation of approximately 25,000 lane miles of roadways. Activities include but are not limited to: winter maintenance, reactive and preventive pavement preservation, pavement marking, signing, roadway striping, noxious weed control, traveler information, and other necessary roadway and roadside repairs and maintenance.

Again, weather plays a large factor in maintenance activities that can be completed. The department must have ample budget authority available to meet the best of conditions. The Legislature has consistently recognized this issue by granting the department with continuing appropriation authority for this program.

Bridge and Road Safety Accountability Account (BaRSAA)

Included in the unspent State Special Revenue authority are amounts related to the Bridge and Road Safety and Accountability Act (BaRSAA) appropriations. Unspent authority is related to restricted appropriations from HB473 that were unused and the timing difference in cash flow between the appropriation process, revenue collection, and actual cash payouts for multi-year project costs. During fiscal years 2018 and 2019, MDT had \$12.6 million and \$7.2 million in unspent budget authority respectively in BaRSAA. Many of the projects that were award during fiscal years 2018 and 2019 are multi-year projects that did not have many expenditure payments during 2018 or 2019.

Within HB 473, MDT had unspent authority of \$12.5 million and \$9.8 million during fiscal years 2018 and 2019 respectively. These amounts were appropriated in HB 473 for contractor payments above the authority appropriated in HB 2.

10. Revenue Projections

During fiscal year 2018 and 2019, actual fuel tax revenues were lower than revenue projections in the State Special Revenue Fund by \$42.3 million and \$41.8 million respectively. The State Special Revenue Fund projections were updated with the passage of HB 473 and included projections of the full amount of BaRSAA to be collected. In fiscal year 2018, due to timing, only 1/3 of the new HB 473 fuel taxes were collected resulting in lower actual revenues. During fiscal years 2018 and 2019 the original budget was established with all revenue estimates in the Highway State Special Revenue Fund (HSSRF). Upon the passage of HB 473, revenue estimates were broken out for each individual state special revenue fund, but the revenue estimate for HSSRF was not reduced by the amounts included in the individual funds. This resulted in revenue estimates of fuel taxes in excess of actual revenues of \$42.3 million and \$41.8 million in fiscal years 2018 and 2019 respectively.

During fiscal year 2018, the Federal Special Revenue funds' revenue projections exceeded actual revenues by \$19 million. The revenue projections are based on full construction program delivery and many of the projects that were awarded during fiscal year 2018 are multi-year projects that did not have many expenditure payments during 2018.

During fiscal year 2019, the actual revenues received in the Federal Special Revenue funds exceed the revenue projections by \$51.9 million. Revenue projections are based on a federal/state split of 87/13%. Due to the mix of projects, the split came in closer to 90/10%, resulting in higher reimbursements from FHWA. Also, many of the projects awarded in 2018 were ongoing during in fiscal year 2019, resulting in additional expenditures in conjunction with the 2019 projects awarded.

11. Related Party Transactions

A relative of a member of MDT's Management Team is part owner of a business that holds a State term contract for supplies. A term contract is a contract in which a source for supplies is established for a specific period of time at a predetermined unit price. The term contracts are issued by the State Procurement Bureau of the Department of Administration and state agencies are required to use the DOA issued term contracts for such supplies. Statewide, MDT purchased supplies from this business in the amount of \$112,566 and \$100,026 for fiscal years 2018 and 2019, respectively.

A relative of a member of MDT's Management Team is part owner of a business which has been granted the right by the local airport to operate and provide related services. There is only one such operator at this airport. Given this exclusivity, MDT had transactions with this business. Department-wide, MDT purchased services in the amount of \$9,447.04 and \$19,720.75 for fiscal years 2018 and 2019, respectively.

MDT has proper conflict of interest procedures and internal controls in place for identified related party transactions.

Report on Internal Control and Compliance

LEGISLATIVE AUDIT DIVISION

B-1

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL SCHEDULES PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Legislative Audit Committee
of the Montana State Legislature:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Schedules of Changes in Fund Equity & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Transportation for each of the fiscal years ended June 30, 2019, and 2018, and the related notes to the financial schedules, and have issued our report thereon dated October 24, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial schedules, we considered the department's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial schedules, but not for the purpose of expressing an opinion on the effectiveness of the department's internal control. Accordingly, we do not express an opinion on the effectiveness of the department's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial schedules will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit the attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that

were not identified. However, we did identify a deficiency in internal control over note disclosure preparation that we consider to be a material weakness. See the finding and recommendation starting on page 14 for a description of this material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the department's financial schedules are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination on financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Department of Transportation Response to Findings

The department's response to the findings identified in our audit are described on page C-1 of this report. The department's response was not subjected to the auditing procedures applied in the audit of the financial schedules and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the department's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

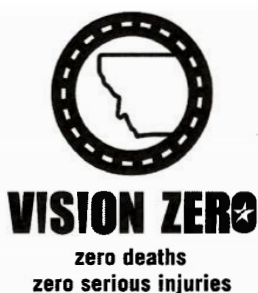
/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

October 24, 2019

MONTANA DEPARTMENT
OF TRANSPORTATION

DEPARTMENT RESPONSE

**Montana Department of Transportation**

2701 Prospect
PO Box 201001
Helena MT 59620-1001

Michael T. Tooley, Director

Steve Bullock, Governor

RECEIVED

December 26, 2019

LEGISLATIVE AUDIT DIV.

December 20, 2019

Angus Maciver, Legislative Auditor
Legislative Audit Division
State Capitol Room 160
Helena, MT 59620-1705

Dear Mr Mciver,

We appreciate the opportunity to respond to the audit recommendations in the Financial Compliance Audit Report of the Montana Department of Transportation (MDT) for the two fiscal years ended June 30, 2019.

We have attached our response including the timeline for implementing the recommendations. We appreciated your staff's hard work and professionalism during the audit. MDT is committed to complying with state and federal laws, implementing and monitoring effective internal controls, and ensuring complete and accurate financial information is recorded on the state's accounting records. MDT views the audit process as an opportunity for improvement and appreciates your input.

Sincerely,

Michael T. Tooley
Director

Attachment



Corrective Action Plan
MDT Financial-Compliance Audit #19-17
For the Two Fiscal Years Ended June 30, 2019

Audit Recommendation #	Does this affect a federal program?	Management View	Corrective Action Plan	Responsible Area	Initial Target Date
Recommendation #1 We recommend the MDT: A. Enhance internal controls to ensure all required certified payrolls are received for projects not being managed through the electronic payroll submission module. B. Obtain and review certified weekly payrolls from contractors and subcontractors for all active construction projects of the Highway Planning and Construction.	Yes	Concur	<p>It is the responsibility of the contractors to submit certified weekly payrolls to the department when working on an MDT construction project. The department's internal control is that the Engineering Project Managers (EPM) ensure certified payrolls are received each week for their contracts. The Contractor Compliance Specialist for compliance testing has increased education of this requirement to contractors, as well as enhance training to EPM's. Through the increase training of the contractors and field staff, the projects managed outside of the new electronic payroll submission module will be monitored for all certified payrolls.</p> <p>Additionally, MDT implemented a new module for Site Manager that allows the contractors to submit the certified payrolls electronically. This was completed October 2019. This will assist in improving compliance. Finally, MDT Audit Services has added a step to review this process as part of their annual Construction Project Audits.</p>	Highways & Engineering Division and Internal Audit	Completed
Recommendation #2 We recommend the MDT: continue to implement the directive of the Montana Division of the Federal Highway Administration, to formally document adjustments to contracts through change orders when major items of work have quantity overruns in excess of 25 percent.	Yes	Concur	<p>MDT has updated the Specification Book to include the updated Specification for Significant Change in Character of Work. This was included on all contracts let after April 25, 2019. This specification includes verbiage to require a change order for all major items that overrun or underrun.</p> <p>MDT will include verbiage on the 90% complete memo to have the EPM check for any quantity deficiencies and determine the nature of any changes and if a change order is required.</p>	Highways & Engineering Division	December 31, 2019



Corrective Action Plan
MDT Financial-Compliance Audit #19-17
For the Two Fiscal Years Ended June 30, 2019

Audit Recommendation #	Does this affect a federal program?	Management View	Corrective Action Plan	Responsible Area	Initial Target Date
Recommendation #3 We recommend the MDT: A. Enhance internal controls to ensure compliance with the Federal Funding Accountability and Transparency Act for its Highway Planning and Construction program.	Yes	Concur	MDT has enhanced internal controls to ensure compliance with the Federal Funding Accountability and Transparency Act (FFATA). The internal controls include updating the FFATA Reporting Process document which designate the responsible person for all reporting and the applicable person for each program. Calendar reminders have been created on all responsible parties calendars in order to track reporting dates and review dates. Also, oversight responsibilities have been designated to the Planning Division Financial Contact/Administrative Section Supervisor, who will conduct	Rail, Transit & Planning Division	Completed



Corrective Action Plan
MDT Financial-Compliance Audit #19-17
For the Two Fiscal Years Ended June 30, 2019

Audit Recommendation #	Does this affect a federal program?	Management View	Corrective Action Plan	Responsible Area	Initial Target Date
B. Report subaward obligating actions timely for the Highway Planning and Construction program.			monthly reviews and necessary program staff follow-up to enhance reporting oversight. In addition, division management has reviewed with respective staff the noted delays, FPATA requirements, the updated MDT process and compliance expectations		



Corrective Action Plan
MDT Financial-Compliance Audit #19-17
For the Two Fiscal Years Ended June 30, 2019

Audit Recommendation #	Does this affect a federal program?	Management View	Corrective Action Plan	Responsible Area	Initial Target Date
Recommendation #4 We recommend the MDT: A. Comply with state law by issuing final contractor payments within 90 days of granting final acceptance. B. Revise its internal policy to require interest on late payments to contractors and vendors.	Yes	Concur	MDT has issued guidance to the EPMs, that does not allow for final acceptance of a project until all work is complete and all outstanding material certifications have been received by MDT. The Construction Engineering Bureau will also monitor and inform MDT personnel of deadlines and dates. MDT's internal policy will be reviewed and revised to include procedures of when and how to identify when interest is to be paid per MCA 17-8-242. This will include notification from the Construction Engineering Bureau to the Administration Division of the timelines and the days late.	Highways & Engineering Division	January 31, 2020
Recommendation #5 We recommend the MDT enhance internal controls by developing written procedures for the preparation and review of the note disclosures.	Yes	Concur	MDT has enhanced the internal control over developing of note disclosures by implementing written processes by which to draft the notes. These processes include checking MOM's policies for draft note shells, confirming prior note information and reviewing the financials of the Department to determine additional information that should be included in the notes.	Administration Division	January 31, 2020